Agriculture Canada

FACTORS AFFECTING TRADE BETWEEN CANADA AND THE UNITED STATES IN CATTLE, CALVES, BEEF AND VEAL

(Working Paper 9/87)

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WORKING PAPER

Policy Branch

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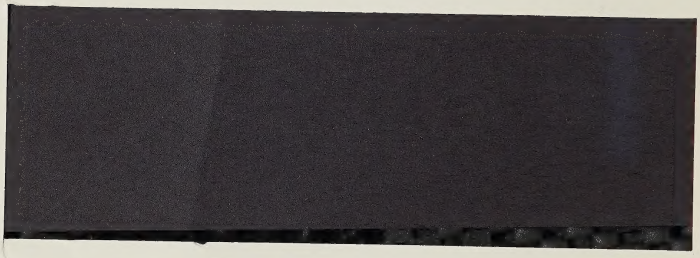

FACTORS AFFECTING TRADE BETWEEN CANADA AND THE UNITED STATES IN CATTLE, CALVES, BEEF AND VEAL

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June 1987

Introduction

On December 15, 1986 the United States International Trade Commission (USITC) initiated an investigation, under Section 332 of their Tariff Act of 1930(1), of the "competitive conditions in the cattle and beef industries of Canada and the United States", concentrating on " the competitive position of Canadian cattle and beef in the United States markets". Although officially requested by the U.S. Senate Finance Committee the study was brought about because of concerns raised by the National Cattlemen's Association (NCA).

The root cause of U.S. cattlemen's concern with respect to imports from Canada seems to be the strong growth of the U.S.'s net imports of cattle and beef from Canada since the mid-1970's, combined with the poor economic state of the U.S. industry over the last few years. U.S. cattlemen seem to believe that subsidies paid to Canadian cattlemen permit them to be more competitive in the U.S. market.

The primary purpose of this paper is to explain the growth in Canada's net exports of bovine products to the U.S. over the last 12 years. To understand the reasons for the growth in trade one must first understand certain facts about the trade. Consequently the first section of this paper reviews the structure of Canada-U.S. trade in bovine products, trends in trade flows and governmental trade policy which affect trade. After reviewing the reasons for the development of trade over the last 12 years the Section 332 study itself is discussed in a final section.

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(1) See Appendix I for more information on Section 332

Canada - US Trade in Bovine Products

There is no question that Canada - U.S. trade in cattle, calves, beef, veal and by-products has been running in Canada's favor for over a decade (Figure I). In 1974, for example, we imported $29 million more of these products from the U.S. than we exported. In 1985 we exported $275 million more than we imported. The trade surplus dropped sharply in 1986 (by 45%) but still amounted to $151 million. The growth of the trade surplus to 1985 originated from a faster growth of exports than imports. From 1974 to 1985 exports grew at an average annual rate of 10% while imports grew at about 7%. Net exports of both live animals and dressed beef grew rapidly throughout the period. As regards by-products (hides, tallow and edible offals) Canada has had a fairly consistent deficit since 1971.

Canadian Exports

Canada exports both cattle and calves and beef and veal to the United States. Aspects of this trade are examined in the next two sections.

i) Live animals

For the period 1971-86 Canada's exports of cattle and calves to the U.S. averaged 333,000 head per year. They ranged from a high of 525,000 in 1977 to a low of 132,000 in 1974 (when restrictions were placed on Canadian exports to the U.S.). From 1980 to 1985 live exports were well above the long-term average, but they fell well below this average in 1986.

For the period 1981-86 approximately three-quarters of Canada's live exports to the U.S. were slaughter cattle and calves (Figure 2), about 17% were feeders and 9% were replacement stock. Of the slaughter animals about 40% were cows, about 27% fed cattle, 21%

Figure I
Canada–U.S. Trade Balance in Cattle,
Calves, Beef, Veal and By–products

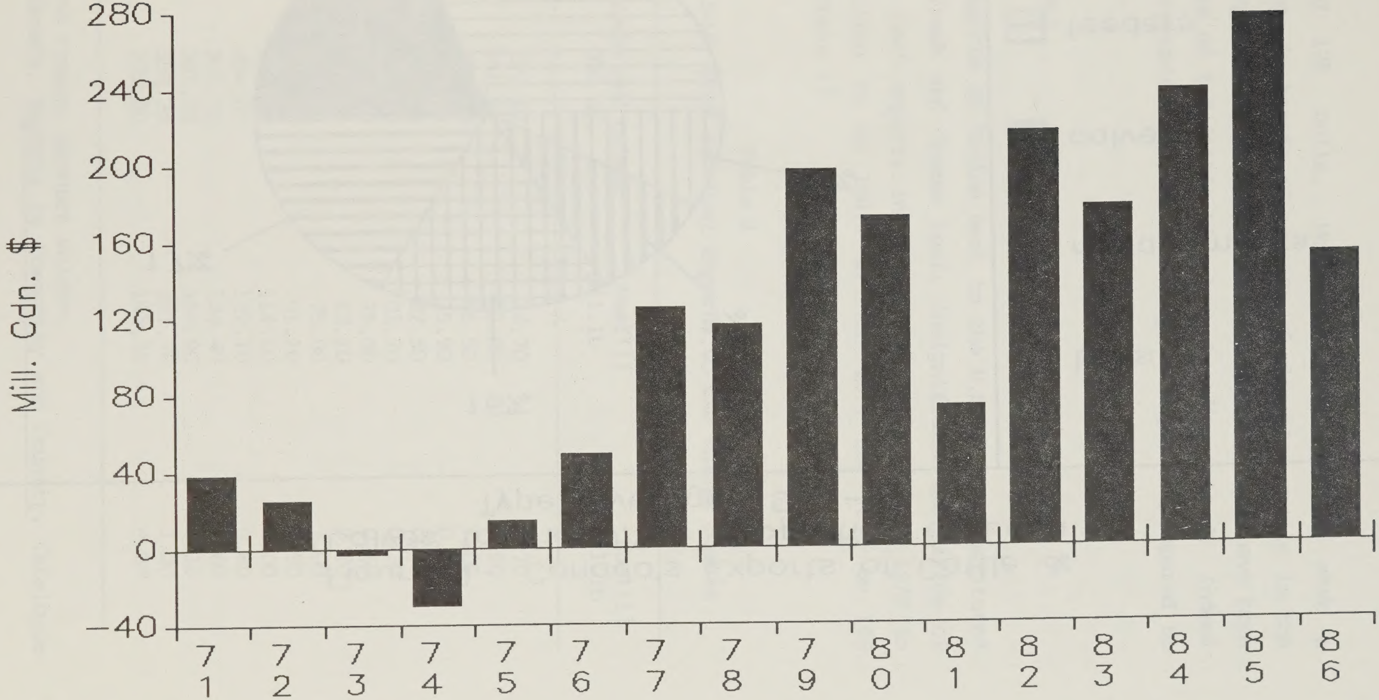
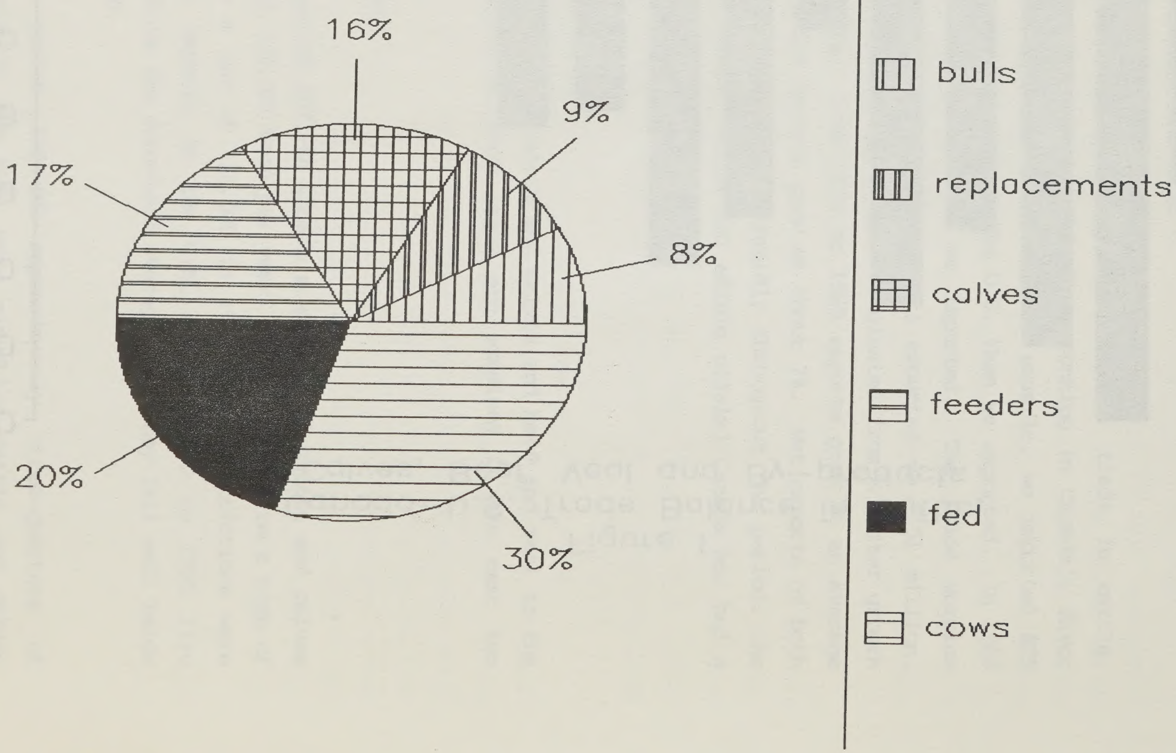


Figure II— Canada's Exports of Cattle & Calves to the U.S.— Proportion of Each Type, Average 1981–86



slaughter calves and 12% bulls. However, these averages mask a considerable divergence in trends of exports of slaughter cattle in the 1980's. While the export of cows, bulls and slaughter calves have been trending down, exports of fed cattle have been trending upward. Indeed in 1986 fed cattle accounted for 62% of slaughter exports (compared to 28% the year before).

ii) Beef and veal

Canadian exports of bovine meat to the U.S.A. are constituted almost entirely of fresh and frozen beef; insignificant quantities of veal are exported. Beef exports increased consistently from 1978 to 1985 (from 62.4 million lb to 188.7 million lb.) but fell to 165 million lb.in 1986 (Table 1).

Table 1

Canadian Cattle, Calf, Beef and Veal Exports to the United States

	Cattle and calves 000 hd.	Beef(1) mil.lb	Veal(1) mil.lb
1971	229.40	74.70	5.70
1972	261.80	53.80	4.90
1973	359.90	55.50	1.00
1974	131.90	35.90	0.20
1975	204.40	22.50	0.20
1976	458.60	82.70	0.30
1977	524.90	75.00	0.60
1978	442.70	62.10	0.30
1979	209.30	75.80	1.00
1980	345.30	91.10	0.90
1981	332.80	114.60	0.00
1982	484.00	122.10	0.80
1983	367.70	124.40	0.60
1984	385.00	160.90	1.10
1985	359.30	187.70	1.20
1986	232.90	165.30	4.80

(1) fresh, chilled and frozen, product weight.
Source: Statistics Canada, Exports by Commodity and Country, Catalogue no. 65-005.

Canada's beef exports to the U.S.A. are mainly of "manufacturing-quality" beef, broadly defined. Although this beef is primarily used for grinding there is a significant variation in its origin. The largest proportion is undoubtedly cow beef, both boneless and in carcass form. A significant percentage, however, is trimmings from fed carcasses. (Trimmings are normally traded on a "chemical lean" basis of between 50% and 65% whereas most cow beef is sold on an 85% C.L. basis). Agriculture Canada data suggest that trimmings have accounted for 20-30% of Canadian beef exports to the U.S. in the 1980's. It is believed that there has been increasing volumes of high-grade carcass beef going to the U.S. in recent years, but available statistics are unable to distinguish between this type of beef and manufacturing beef.

Table 2

Distribution of Canada's Beef Exports to the U.S.A. by Region of Destination in the U.S.

Year	New York Pennsylvania, New Jersey	North Central(1)	Pacific (2)	Other
		------ per cent ------		
1980	49	24	6	21
1981	47	24	11	18
1982	43	23	11	23
1983	37	22	15	26
1984	39	21	21	19
1985	31	33	23	13

(1) Michigan, Ohio, Illinois, Indiana, Wisconsin.
(2) Washington, Oregon, California.

Source: Statistics Canada, External Trade Division, unpublished data.

During most of the 1980-85 period the major destination for Canadian beef exports to the U.S. was the Northeast (Table 2). However, the most rapid growth occurred in exports to the west coast states: their share grew from 6 percent to 23 percent. Similarly exports to upper Midwest states also grew more rapidly than those to the Northeast: their share increased from 24% in 1980 to 33% in 1985. The main reason for this faster rate of growth in exports to the western and midwestern states was that exports from Western Canada grew at a faster rate than those from Eastern Canada during this period.

From 1980 to 1984 the majority of Canadian beef exports originated in Eastern Canada (Table 3). However the proportion progressively decreased and by 1985 the West and East sent equal proportions.

Table 3
Canadian Beef Exports to the U.S.A. Share of Western and Eastern Canada

Year	Western Canada	Eastern Canada
	------ per cent ------	
1980	18	82
1981	29	71
1982	34	66
1983	38	62
1984	38	62
1985	50	50

Source: Statistics Canada, External Trade Division, unpublished data.

Canadian Imports

i) Live animals

Agriculture Canada data indicate that total Canadian imports of cattle and calves from the U.S.A. for the period 1981-86 averaged 93 thousand head per year. They ranged from a high of 174 thousand head in 1981 to a low of 51 thousand in 1984 (Table 4). In 1986 they totalled 88 thousand.

Due to Canada's health testing requirements for feeder and breeding stock imported from the U.S., bovine animals imported from the U.S. are composed primarily of slaughter animals. Slaughter imports are mainly composed of fed steers and heifers. The type of fed animal imported would be lean by U.S. standards. Typically it would be a steer grading "U.S. good" and yielding grade 2 or 3. This type of animal would be comparable to Canada's A1 or 2 grade. Almost all fed cattle are imported into Eastern Canada, specifically by packing plants in Southern Ontario.

Table 4
Canadian Imports of Cattle and Calves from the U.S.

Year	Fed Steers & Heifers	Slaughter Cows & Bulls	Slaughter Calves	Feeder Cattle & Calves	Breeding Stock	Total
			- 000 head -			
1981	152.3	0.7	18.1	0	3.0	174.1
1982	71.0	0.4	13.9	0.8	3.2	89.4
1983	69.7	0.4	12.3	7.4	4.1	93.8
1984	18.3	1.2	17.4	10.6	3.3	50.7
1985	45.9	0.7	6.1	4.9	2.0	59.6
1986	45.9	3.1	9.8	12.5	16.3	87.7

Source: Agriculture Canada, Livestock Market Review and Meat Hygiene Division data.

The relaxation of veterinary requirements with respect to feeder stock imports during the last few years has resulted in increased imports. Indeed in 1986 Canada was a net importer of feeder stock from the U.S.

ii) Beef and veal

Bovine meat imported from the U.S. is almost exclusively fresh and frozen beef. This beef is in turn almost all from fed animals, with a major percentage apparently being from carcasses having graded U.S. Good.

As indicated in Table 5 imports increased from 11.9 million lb in 1979 to 44.8 million in 1984 and were at about that level in 1985 and 1986. It is worth noting that the levels of imports experienced from the U.S. in 1984-86 were the highest ever recorded.

Table 5
Canadian Imports of Fresh or Frozen Beef and Veal from the U.S.A., 1971-86

	Beef	Veal	Total
		-million lb.-	
1971	17.50	0.00	17.50
1972	27.10	0.00	27.10
1973	34.70	0.00	34.70
1974	17.60	0.00	17.60
1975	10.90	0.20	11.10
1976	24.00	0.30	24.30
1977	12.10	1.60	13.70
1978	12.50	5.50	18.00
1979	7.10	4.80	11.90
1980	10.30	2.50	12.80
1981	19.00	2.40	21.40
1982	19.40	0.70	21.10
1983	23.30	0.40	23.70
1984	43.10	1.70	44.80
1985	42.90	0.60	43.50
1986	42.40	1.10	43.50

Source: Statistics Canada, Exports by Commodity and Country, Catalogue no. 65-007.

It is not believed that any significant volume "manufacturing-quality" beef is imported from the U.S. Consequently U.S. product does not compete with that supplied by other beef exporters to Canada. Virtually all U.S. beef is destined for Ontario, Quebec and British Columbia.

Canadian and U.S. trade policy for cattle, calves, beef and veal

Canadian and U.S. policies with respect to cattle and beef imports can be divided into three categories:

- veterinary regulations
- tariffs
- quantitative regulation as provided for in the Meat Import Act

i) Veterinary regulations

The following is a summary of Canadian veterinary regulations with respect to cattle and beef imports:

- there is a general ban on imports of fresh or frozen beef or veal from countries in which foot and mouth disease or rinderpest are endemic;
- cattle from countries with endemic foot and mouth disease may enter subject to a period of quarantine in a Canadian quarantine station. Effectively this limits imports from such countries to high-valued breeding stock;
- cattle and calves imported from the U.S. for immediate slaughter may enter without restriction as long as they are transported immediately to a slaughterhouse;
- import policy requirements for cattle and calves from the U.S. other than for immediate slaughter is more strict. Steers and spayed heifers entering during the period October 1 - March 31 must be accompanied by a certificate indicating that they passed, as an assembled group, one

negative test for bluetongue, anaplasmosis and tuberculosis. In the period Oct. 1 - Nov. 30 the animals must weigh a minimum of 500 lb, for the period Dec. 1 - Jan.31 600 lb, and for the period Feb.1 - March 31 700 lb. Spayed heifers must carry a hot iron brand on the jaw. In the period April 1 - September 30 the animal must undergo an initial test for bluetongue followed by a second test (plus the other tests) 60 days later. In September, 1986 new procedures were introduced, on an experimental basis, to permit the importation of anÉ assembled group during the period October 1 - March 31 even if individual animals have failed the health tests. For a trial period "reacting" animals will be excluded from the group and the others permitted to enter. Once in Canada the imported animals must remain in approved feedlots until sold for slaughter or moved to another approved feedlot.

As regards imports of cattle and beef from countries with endemic foot and mouth disease the United States' veterinary regulations parallel those of Canada. The U.S. does not have the same strict requirements as regards testing for bluetongue, anaplasmosis or tuberculosis. Some U.S. states do require, however, that imported breeding stock be vaccinated against brucellosis. Since this is a live vaccine (its use therefore being discouraged in Canada) and since Canada is free of brucellosis, this requirement does represent somewhat of a handicap to Canadian exporters.

ii) Tariffs

All Canadian and U.S. tariffs are bound rates. Except for the tariff on canned beef all tariffs correspond to those applied by the U.S.

Table 6
Canadian and U.S. Tariffs on Cattle, Calves, Beef and Veal

Tariff Item		Commodity	Unit	MFN Rate	
Canada	U.S.A			Canada	U.S.A
501-1	100.40-100.5	cattle or calves, NES	lb.	1 ct.	1 ct.
504-1	100.50	cows for dairy purposes	lb.	free	free
701-1	106.10	beef and veal, fresh, chilled or frozen	lb.	2 ct.	2 ct.
707-1	106.80	edible offal	lb.	free	free
800-1	107.52	beef, canned	-	15%	3%
1002-1	107.40	beef and veal, cured or pickled	lb.	1 ct.	1 ct.
	107.61	beef and veal, portion controlled cuts U.S.DA prime or choice	-		4%
	107.62 cuts	other portion controlled	-		10%

iii) Quantitative regulations

Both Canada and the United States have legislation providing for the quantitative regulation of beef and veal imports in specific situations. The Canadian Meat Import Act was passed into law in February, 1982. Briefly, the Act establishes quota levels for a calendar year on the basis of a "counter-cyclical" formula. The formula adjusts a base period level of imports upwards or downwards in proportion to a moving average ratio of recent to past cow and heifer marketings, further adjusted for changes in beef consumption (more details on the Act are provided in Appendix II). Since its establishment in 1982 the Act has only been used once, in 1985. In that year the global quota was set at 167.5 million lb.

In many respects the Canadian Act parallels the U.S. Meat Import Act of 1979. The U.S. Act also contains a "counter-cyclical" formula to adjust a base level of imports, although the counter-cyclical component of that formula is based on cow-beef supplies (more details on the U.S. Act are provided in Appendix III).

During the Tokyo Round of GATT negotiations both Canada and the U.S. undertook "minimum access commitments" (MAC) as regards beef and veal imports. For Canada the access level grows from a 1980 base level of 139 million lb at a rate equal to the rate of growth of the Canadian population. For 1987 the MAC level is 149.1 million lb. This undertaking corresponds to a U.S. undertaking to import a fixed minimum of 1.25 billion lb per year. The MAC level overrides any quota level established by the formulas in either the Canadian or U.S. Acts. In Canada the quota levels generated by the formula have been below the MAC since the establishment of the Act.

In the application of its Act Canada has gone to great lengths to avoid excessive restriction of U.S. beef exports to Canada. In 1985 the U.S. was allocated a quota of 21.6 million lb. for "low-quality" beef plus an additional 43.3 million lb. for "high-quality" beef. Actual imports from the U.S. totalled 42.9 million lb. It is clear therefore that the quotas did not constitute a limitation to U.S. trade.

Factors Affecting Canada's Trade in Cattle, Calves, Beef and Veal since 1976

There are five major factors which explain the rapid growth in Canada's net exports in bovine products to the U.S. from 1976 to 1985:

- the more rapid rate of beef cow herd liquidation in Canada than in the United States;

- the increase in the spread in prices for slaughter cattle as between Western and Eastern Canadian markets;
- the depreciation of the Canadian dollar;
- the growth in beef imports from offshore, particularly of subsidized beef from the European Economic Community (EEC);
- the decrease in feedgrain prices;

In addition to permitting one to understand why our net exports to the U.S. grew so rapidly an understanding of these factors will enable one to understand why these net exports will probably decrease rapidly over the next few years.

i) Cow herd liquidation

As was indicated earlier the growth of exports of cows from 1976 to 1985 explains the largest proportion of the growth in Canada's exports of cattle during that period. Similarly the growth in beef exports was largely the result of growth of cow beef exports.

Table 7 indicates that from 1976 to 1984 the rate of cow herd liquidation in Canada was rapid both in absolute terms and in relation to the rate in the U.S. During 1985-86 the rates were more comparable to those in the U.S. Table 8 indicates the rather close correlation which existed between cow marketings and slaughter cow exports in the 1980's.

If Canada's beef cow population were more evenly distributed across the country it is probable that there would be less of a correlation between marketings and exports. However, 75% of the beef cow population is located in the prairie provinces. These provinces, of course, account for only a small proportion of Canada's demand for manufacturing beef. Consequently, during a period of cow herd liquidation cow marketings and manufacturing beef production on the prairies far surpass local demand for slaughter cattle and

manufacturing beef. At the same time Eastern Canada, which has a major deficit in high-grade beef, is not nearly so deficit in manufacturing beef (because of a high dairy cow population). Moreover, Western Canadian manufacturing beef has to compete against lower priced offshore product in the Eastern market. Therefore Western Canadian cows and manufacturing beef have been generally priced down to the point where they become competitive in the U.S. market.

Table 7
Year-to-year Changes in Beef Cow Inventory, Canada and the U.S.A.

Year	U.S.A %	Canada %
1976	4.0	-2.0
1977	-5.6	-11.6
1978	-6.5	-6.2
1979	-4.3	-5.1
1980	0.0	0.0
1981	4.4	0.0
1982	1.5	0.0
1983	-3.2	-4.5
1984	-1.5	-2.1
1985	-5.7	-5.3
1986	-4.9	-3.8
1987	1.0	0.9

Source: Statistics Canada, Livestock and Animal Product Statistics, Cat. no. 23-203. U.S.D.A., Livestock and Meat Statistics.

Table 8
Canadian Cow Marketings & Slaughter Cow Exports to the U.S. 1981-1986

Year	Marketings	Change	Exports	Change
	000	%	000	%
1981	670.8	1	57.0	2
1982	807.3	20	90.2	58
1983	817.2	1	93.9	4
1984	857.5	5	100.4	7
1985	914.2	7	89.4	-11
1986	781.9	-14	41.9	-50

Source: Agriculture Canada, Livestock and Meat Trade Report.

ii) Increased cost of moving beef from Western to Eastern Canada

Table 9
Price Differentials Between Western and Eastern Canada for Slaughter Steers and Cows*, 1976-86

Year	Steers**	Cows**
	-$ per hundred lb.-	
1976	3.04	4.06
1977	3.74	1.95
1978	3.17	0.28
1979	3.84	3.73
1980	4.02	4.83
1981	5.20	5.95
1982	6.05	7.37
1983	6.24	6.46
1984	7.68	8.35
1985	5.68	8.68
1986	7.41	7.70

* the amount by which western prices are under those in the east
** Steers: A1,2 Toronto minus Southern Alberta.
Cows: D3,5 Toronto minus Edmonton
Source: Agriculture Canada, Livestock and Meat Trade Report and Canfax.

Since the late 1970's there has been a steady increase in the spread between prices for all classes of slaughter cattle in Eastern Canada and those for slaughter cattle in Western Canada. Table 9 shows that for the period 1976-79 the average annual differential between the price of A1,2 steers in Toronto and Southern Alberta was $3.49 per cwt. In 1986 the spread was $7.41. The increase in the differential for slaughter cows has been even more marked. The average differential for the period 1977 - 79 was $1.84, the differential was just under $8 in 1986. Although year to year variation in these differentials may in part be explained by relative supply variations the major reason for the growth appears to be the increase in the cost of transporting beef and live animals from west to east. Table 10 shows that the cost of transporting beef by rail from Southern Alberta to Toronto-Montreal increased by $4-$5 per cwt. from the late 1970's to 1985. The cost of moving cattle and calves increased by even more. Although truck rates apparently increased by somewhat less, the increase was still significant. It is understood that other transfer costs (brokerage, insurance, etc.) have also increased significantly.

Essentially what has happened is that as the cost of moving cattle and beef from Western to Eastern Canada increased cattle prices in the west have been forced down relative to those in the east (Eastern prices being constrained from rising by the effect of imports from the U.S.). As western cattle prices decreased they became more competitive in U.S. markets.

Table 10
The Cost of Transporting Suspended Beef by Rail from Southern Alberta to Toronto/Montreal, 1978-86
$ per cwt

Jan. 1, 1978 - Dec. 31, 1978	5.39
Jan. 1, 1978 - Oct. 14, 1979	5.71
Oct.15, 1979 - Jan. 31, 1980	5.92
Feb. 1, 1980 - Dec. 31, 1980	6.52
Jan. 1, 1981 - May 14, 1981	7.21
May 15, 1981 - Aug. 31, 1981	7.42
Sept.1, 1981 - Dec. 31, 1981	7.60
Jan. 1, 1982 - Dec. 31, 1982	8.51
Jan. 1, 1983 - Feb. 1, 1984	9.02
Feb. 2, 1984 - Feb. 1, 1985	9.47
Feb. 2, 1985 -	9.85

* Minimum weight 60,000 lb
Source: Railway Tariffs

iii) <u>The depreciation of the Canadian dollar</u>

In the seven years prior to 1977 the Canadian dollar fluctuated within a fairly narrow band around parity with its U.S. counterpart. Beginning in late 1976 however the Canadian dollar began a slide which lasted until early 1987. On an average annual basis the dollar depreciated by 40% between 1976 and 1986 (Fig.3).

The depreciation of the Canadian dollar affected Canada-U.S. trade in cattle and beef in the following manner: as the dollar depreciated cattle prices in Canada tended to rise. This upward pressure on cattle and beef prices depressed beef consumption below what it would have been had Canadian prices maintained a closer relation with those in the U.S. (it is worth noting that beef consumption trends in Canada and the U.S. diverged from 1981 to 1986, a phenomenon which must be attributed largely to the dollar-induced divergence in price trends, see Figure 4). The declining trend in

Figure III
Canadian–U.S. Dollar Exchange Rate

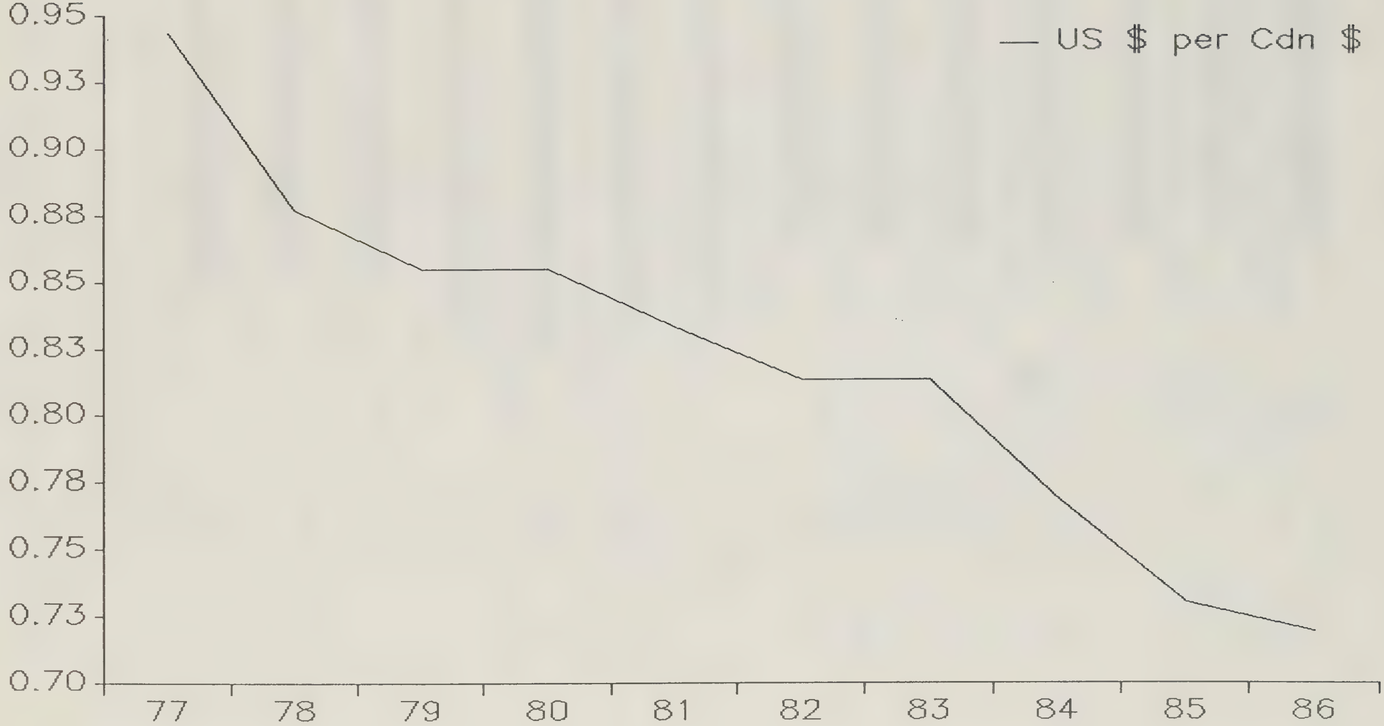
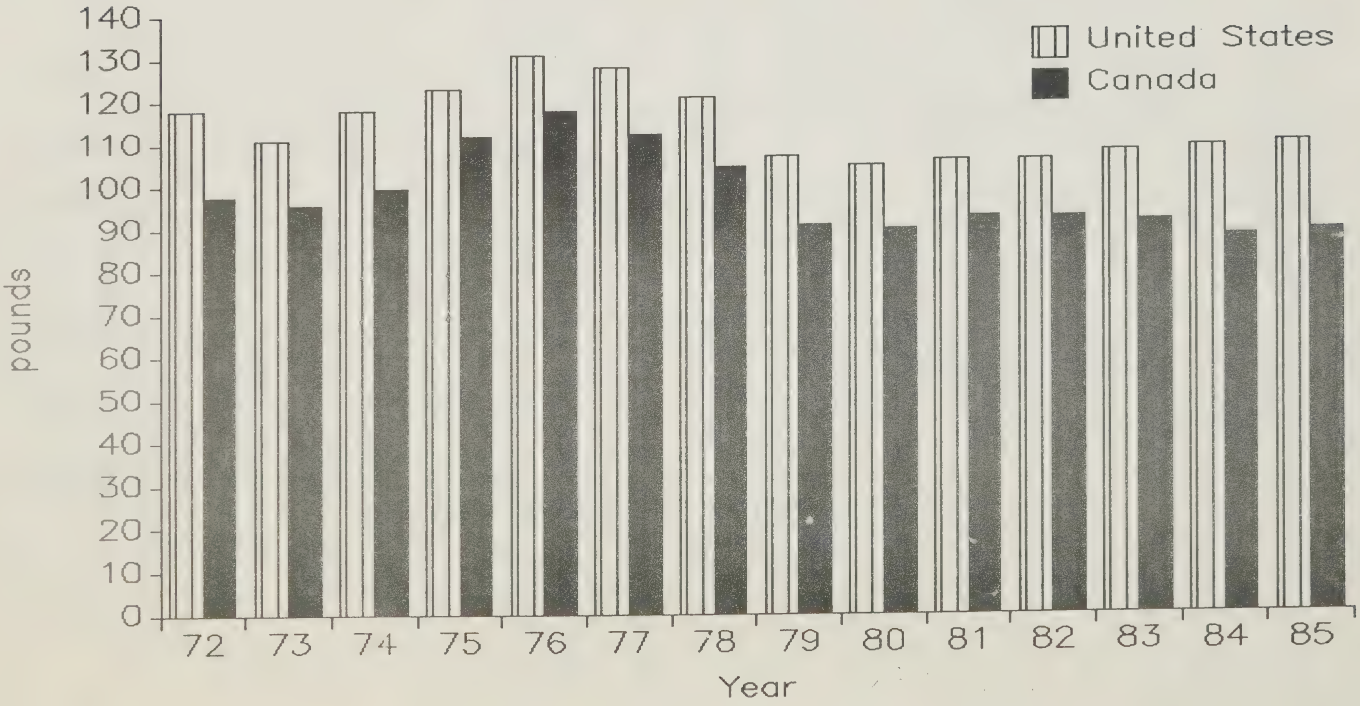


Figure IV
Per Capita Beef and Veal Consumption in Canada and the United States



consumption was not matched by an offsetting decrease in production in either Western or Eastern Canada. Consequently, although prices tended to rise in Canadian dollar terms they tended to decrease in U.S. dollar terms (a phenomenon more evident in Western than Eastern Canada). Consequently, Canadian cattle and beef prices became more attractive in U.S. markets.

Formal empirical studies support the proposition that the Canadian dollar's depreciation has had a major impact on trade relations with the U.S. Meilke and Coleman estimate that a 10% decrease in the value of the Canadian vs U.S. dollar results in a 27 million lb. increase in our net exports to the U.S. Between 1976 and 1985 the Canadian dollar depreciated by 38%. This would suggest that the dollar's loss of value accounted for well over half of the observed increase in net exports during that period.

iv) <u>Increased imports of beef from the EEC</u>

From 1981 to 1984 imports into Canada of subsidized beef from the EEC grew from virtually nothing to over 50 million lb (product weight). In 1985, under quota, they amounted to 23 million lb. This growth in imports of EEC beef was the major cause of growth in total imports from offshore for that period (Table 11).

Table 11
Canadian Beef Imports From Offshore, 1980-86

Year	EEC	Other	Total
1980	0.00	100.90	100.90
1981	2.70	94.80	94.80
1982	7.70	101.70	101.70
1983	14.80	102.70	102.70
1984	50.20	125.70	125.70
1985	24.80	121.60	121.60
1986	2.60	120.50	120.50

Source: Statistics Canada, Imports by Commodity and Country, Catalogue no. 65-005

It is clear that, during this period, imported EEC beef displaced Canadian beef (and probably live cows) into the U.S. Essentially, end users of manufacturing beef used cheaper EEC beef, more expensive Canadian beef was exported to the U.S. It must be remembered in this regard that EEC access to the U.S. beef market was, and is, restricted to a quota of 5,000 tonnes per year. In a sense therefore by displacing Canadian product EEC beef was effectively using Canada as a "backdoor" into the U.S. market (see McClatchy and Cluff).

Empirical estimates (Charlebois) suggest that during the period 1983-85 there was an almost perfect displacement of Canadian beef into the U.S., by EEC product. For every lb of EEC beef imported into Canada it is estimated that 0.9 lb of Canadian beef was displaced into the U.S.

It is interesting to note that since the application of countervailing duties on EEC beef in March of 1986 there has been a sharp drop in Canadian beef exports to the U.S. This decrease has occurred despite sharp increases in Canada's imports from other offshore suppliers.

v) Decreased world feedgrain prices

A major component of Canada's live cattle exports to the U.S. since 1984 has been fed steers and heifers. It would appear that a significant proportion of these animals meet U.S. choice grade standards. To meet these standards Canadian steers and heifers have to carry 75 to 125 lb more finish than they would need to meet Canada A1,2 standards.

Clearly it would not be profitable for Canadian cattle feeders to feed to U.S. choice standards if the cost of feeding to those standards exceeded the price of choice cattle in the U.S. It would

appear therefore, that the weakness of Western Canadian barley prices since 1984 has reduced the incremental cost of meeting U.S. standards for Western Canadian cattle feeders.

The U.S. Section 332 Investigation

A "Section 332" investigation is a study done by the U.S.I.T.C. to document the factors affecting the conditions under which an imported product competes against U.S. produced product in the U.S. market (see U.S.I.T.C. publication No. 1621). The study is therefore simply a "fact-finding" process. As stated in the introduction this study was formally requested by the U.S. Senate Finance Committee. The termination of the investigation will be signalled by the presentation by the ITC of its report to the Finance Committee. This will occur on or about July 17, 1987.

No punitive or retaliatory action results from a Section 332 investigation. Nor does a 332 study necessarily presage any type of import relief investigation, such as a countervailing duty investigation. In 1985, for example the 332 investigation on EEC pork imports did not result in further action. However, it would be reasonable to anticipate that if this 332 study revealed that foreign product was competing unfairly in the U.S. market there would be a strong possibility that U.S. producers would request some sort of remedial action. In this respect it is worth noting that a 332 study preceded the CVD investigation on Canadian hogs and pork in 1985.

There is little doubt that the current 332 study will reveal that certain Canadian cattle producers benefit from programs which could be construed as subsidies under U.S. countervailing duty legislation. However, it will also reveal that the major components of Canada's exports to the U.S. have been culled cows and beef from culled cows; these animals do not benefit from any type of subsidy program in Canada. Moreover, in order to launch a successful CVD case U.S.

producers would have to be confident of being able to establish that these "subsidized" imports are injuring, or threaten to injure, their industry. There are a number of factors which would appear to suggest that this is not the case:

- Canadian cattle and beef account for less than 1% of U.S. cattle slaughter and beef production respectively (Table 12). Canadian cattle also account for a small proportion of slaughter in any U.S. region (about 6% in Washington state in 1986, for example).

Table 12
Canadian Cattle and Beef Exports to the U.S. as a Proportion of U.S. Cattle Slaughter and Beef Production

Year	As % of Cattle Slaughter*	As % of Beef Production**
1983	0.44	0.54
1984	0.42	0.69
1985	0.43	0.80
1986	0.42	0.68

* Canadian slaughter cattle exports as a percentage of U.S. commercial cattle slaughter
** Canadian beef exports as a percentage of U.S. commercial beef production.

Source: Agriculture Canada, Livestock and Meat Trade Report, U.S.D.A., Livestock and Meat Statistics.

- Canada is only the third largest beef exporter to the U.S., after Australia and New Zealand. In most years Canada also exports fewer cattle to the U.S. than does Mexico.

- it would appear that Canadian cattle and beef exports to the U.S. commenced a downtrend in 1986 which is expected to last several years. Canadian cattle slaughter and beef production are likely to fall

at a faster rate than that in the U.S. since a larger proportion of the Canadian beef cow herd is located in grain growing areas (i.e. a faster shift of resources from grain to beef production is likely to occur in Canada with a consequent faster decrease in cow and heifer kill).

- there is no evidence that Canadian cattle and beef are sold below the prices of equivalent quality U.S. product. Indeed all evidence suggests that Canadian product in the U.S. is treated as U.S. produced product.

Finally, in deciding whether to proceed with a request for trade remedy action U.S. producers will have to take into consideration the possibility that Canadian producers will request restriction of U.S. access to the Canadian beef and cattle markets. In this respect it is interesting to note that U.S. producers hold a larger share of the Canadian cattle and beef markets than do Canadians of the U.S. market. From 1984 to 1986 U.S. beef constituted about 2% of the Canadian beef market and U.S. slaughter cattle made up about 2% of Canadian slaughter. Regionally the importance of U.S. beef and cattle in the Canadian market is even greater. In Ontario, for example, U.S. cattle constituted about 5% of total cattle slaughter in 1986 and at times accounted for as much as 20% (in December for example).

Appendix I

Section 332

The International Trade Commission conducts investigations under section 332 of the Tariff Act of 1930 (19 U.S.C. 1332) for the purpose of providing trade information to the President, the Committee on Ways and Means of the House of Representatives and/or the Senate's Finance Committee. Section 332 sets forth the ITC's authority to investigate numerous matters which could be classified as trade information. After a period of investigation (of no fixed length) a report is provided to the requesting authority (President, Ways and Means Committee or Senate Finance Committee). The report need not lead to subsequent trade action. See U.S.I.T.C. publication 1621: Summary of Statutory Provisions Related to Import Relief, December, 1984.

Appendix II

Canada's Meat Import Act

The Meat Import Act allows the Minister of Agriculture, with the concurrence of the Minister of International Trade, to establish annual beef and veal import levels on the basis of a prescribed formula and certain other considerations. The formula, which largely parallels that in the United States' Beef Import Law, incorporates an adjustment for changes in domestic disappearance and also a counter-cyclical adjustment to offset cycles in domestic beef supplies. The counter-cyclical component of the formula is a ratio of moving averages of annual cow and heifer marketings in Canada. The prescribed level of imports can be further adjusted in any of the following situations:

- if exporting countries agree to restrain their exports of beef to Canada; in this situation the permitted level of imports may be increased;

- if the supply of beef and other meats is inadequate to meet domestic demand at reasonable prices; or

- if the United States suspends import restrictions under its Beef Import Law; or

- if there are any other major factors which would suggest that the import level generated by the formula should be adjusted.

It should be recalled that import levels may not be set below the Guaranteed Minimum Access Commitment level agreed to during the Tokyo Round negotiations.

Appendix III

The United States' Meat Import Act of 1979

This Act empowers the U.S. President to control imports of beef and veal if imports for any calendar year are anticipated to exceed 110% of a prescribed level. As with the Canadian Act the basis for establishing the prescribed level is a countercyclical formula. The formula establishes the prescribed level by adjusting a base quota by two factors:

- average commercial beef production in the current year (forecast) and the previous two years divided by the base production level of 22,959 million lb.

- average cow beef production per capita in the current year (forecast) and previous four years divided by the average of the current and previous years.

Consequently the establishment of quota takes account of trend movement in beef production plus cyclical movements in cow slaughter.

Only under specific circumstances can the President prevent the imposition of quotas when anticipated imports exceed the prescribed level. The President may only suspend or increase quotas if the countercyclical component of the formula is greater than 1.

As with the Canadian Act the U.S. Meat Import Act may not cause the annual level of imports to be less than the minimum level negotiated in the Tokyo Round of GATT negotiations. The U.S.'s Minimum Access Commitment is 1.25 billion lb. (product weight)

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